BIO KEY INTERNATIONAL INC
Form 10QSB
August 13, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED JUNE 30, 2002

[_] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

FOR THE TRANSITION PERIOD FROM ____________ TO ____________

COMMISSION FILE NUMBER 1-13463

BIO-KEY INTERNATIONAL, INC.

(EXACT NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

MINNESOTA	41-1741861
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

1285 CORPORATE CENTER DRIVE, SUITE # 175, EAGAN, MN 55121

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(651) 687-0414

(ISSUER'S TELEPHONE NUMBER)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Shares of the Registrant's Common Stock, par value $.01 per share, outstanding as of August 2, 2002: 13,331,667 shares.

BIO-KEY INTERNATIONAL, INC.

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BIO-key International, Inc.
(a Corporation in the Development Stage)
BALANCE SHEETS

	December 31, 2001	June 30, 2002
ASSETS		(Unaudited)
CURRENT ASSETS		
Cash and cash equivalents	$ 514,970	$ 44,929
Accounts Receivable	--	40,025
Prepaid expenses	206,634	141,231
Total current assets	721,604	226,185
EQUIPMENT AND FURNITURE AND FIXTURES - AT COST, less accumulated depreciation	--	--
OTHER ASSETS	41,706	115,105
	$ 763,310	$ 341,290

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES

Accounts payable	$ 238,496	$ 311,884
Accrued liabilities	90,575	304,912
Total current liabilities	329,071	616,796
LONG-TERM OBLIGATIONS, net of discount	4,331,238	5,195,194
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT		
Preferred stock - authorized, 5,000,000 shares of $ .01 par value (liquidation preference of $100 per share)		
Series B 9% Convertible; issued and outstanding, 21,430 Shares as of December 31, 2001 and June 30, 2002	214	214
Common stock - authorized, 60,000,000 shares of $.01 par value; issued and outstanding, 12,528,469 and 13,331,667 shares, respectively	125,285	133,317
Additional contributed capital	15,538,025	16,073,181
Deficit accumulated during the development stage	(19,560,523)	(21,677,412)
	(3,896,999)	(5,470,700)
	$ 763,310	$ 341,290

See accompanying notes to financial statements.

BIO-key International, Inc.
(a Corporation in the Development Stage)
STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2001	2002	2001	2002
Revenues				
Product sales	$ --	$ 999	$ --	$
Licensing fees	--	57,485	--	57
Reimbursed research and development	--	--	--	
Technical support and other services	--	--	--	
	--	58,484	--	58
Costs and other expenses				
Cost of product sales	--	1,120	--	1

Cost of technical support and other services	--	--	--	
Selling, general and administrative	380,152	493,027	794,578	997
Research, development and engineering	175,473	278,619	454,841	566
	555,625	772,766	1,249,419	1,564
Operating loss	(555,625)	(714,282)	(1,249,419)	(1,506
Other income (expense)				
Interest income and other	7	(81)	(5,829)	
Interest expense	(57,375)	(350,951)	(105,480)	(611
	(57,368)	(351,032)	(111,309)	(610
Loss before extraordinary gain	(612,993)	(1,065,314)	(1,360,728)	(2,116
Extraordinary gain - troubled payable reduction	--	--	--	
NET LOSS	$ (612,993)	$ (1,065,314)	$ (1,360,728)	$ (2,116
Loss applicable to common shareholders				
Net loss	$ (612,993)	$ (1,065,314)	$ (1,360,728)	$ (2,116
Preferred stock dividends and accretion	(89,438)	(96,435)	(89,438)	(96
Loss applicable to common stockholders	$ (702,431)	$ (1,161,749)	$ (1,450,166)	$ (2,213
Basic and diluted loss Per common share	$ (.06)	$ (.08)	$ (.13)	$
Preferred stock dividends and accretion	(.01)	(.01)	(.01)	
Loss per common share	$ (.07)	$ (.09)	$ (.14)	$
Weighted average number of common shares outstanding	10,398,801	12,592,744	10,340,442	12,546

See accompanying notes to financial statements

BIO-key International, Inc.
(a Corporation in the Development Stage)
STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended June 30, 2001	Six months ended June 30, 2002	January 7, 1993 (date of inception) through June 30, 2002
Cash flows from operating activities			
Net loss	$ (1,360,728)	$(2,116,889)	$(20,456,344)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	15,971	--	242,913
Amortization:			
Unearned compensation	--	--	193,333
Intrinsic value of the beneficial conversion feature of the convertible debenture	--	384,956	1,007,520
Deferred financing costs	21,069	--	426,397
Write-down of inventory	--	--	916,015
Write-down of deferred financing costs	--	--	132,977
Gain on sale of Inter-Con/PC stock	--	--	(190,000)
Revenues realized due to offset of billings against a stock purchase	--	--	(170,174)
Acquired research and development	--	--	117,000
Options and warrants issued for services and other	13,320	188,796	1,589,816
Other	--	--	34,684
Change in assets and liabilities:			
Accounts receivable	7,768	(40,025)	(40,025)
Inventories	--	--	(916,015)
Prepaid expenses	(11,856)	65,403	(141,231)
Accounts payable	12,220	73,388	311,884
Accrued liabilities	470,799	235,729	1,816,985
Net cash used in operations	(831,437)	(1,208,642)	(15,124,265)
Cash flows from investing activities			
Capital expenditures	--	--	(242,913)
Proceeds from sales of Inter-Con/PC stock	--	--	190,000
Other	(1,009)	(6,399)	(48,105)
Net cash used in investing activities	(1,009)	(6,399)	(101,018)
Cash flows from financing activities			
Net borrowings under short-term borrowing agreements	850,000	--	3,003,000
Issuance of convertible bridge note	--	--	175,000
Issuance of convertible debentures and long-term notes	--	795,000	3,635,000

Issuance of warrants and convertible debentures	--	--	830,000

Deferred financing costs	--	(50,000)	(362,977)
Exercise of stock options and warrants	--	--	190,799
Sales of common stock	--	--	7,093,832
Sale of preferred stock and assigned value of warrant	--	--	843,558
Redemption of common stock	--	--	(138,000)
Net cash provided by financing activities	850,000	745,000	15,270,212
Net increase (decrease) in cash and cash equivalents	17,554	(470,041)	44,929
Cash and cash equivalents, at beginning of period	48,830	514,970	--
Cash and cash equivalents, at end of period	$ 66,384	$ 44,929	$ 44,929

See accompanying notes to financial statements.

BIO-key International, Inc.
(a Corporation in the Development Stage)
NOTES TO FINANCIAL STATEMENTS
December 31, 2001, and June 30, 2002 (Unaudited)

1. Unaudited Statements

The accompanying unaudited interim financial statements have been prepared by BIO-key International, Inc. (the "Company") in accordance with accounting principles generally accepted in the United States, pursuant to the rules and regulations of the Securities and Exchange Commission. Pursuant to such rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted.

In the opinion of management, the accompanying unaudited interim financial statements contain all necessary adjustments, consisting only of those of a recurring nature, and disclosures to present fairly the financial position and the results of its operations and cash flows for the periods presented. It is suggested that these interim financial statements are read in conjunction with the financial statements and the related notes thereto included in the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2001.

2. Liquidity and Capital Resource Matters

Broad commercial acceptance of the Company's technology is critical to the Company's success and ability to generate revenues. The Company has had no significant revenues to date, and has accumulated losses since inception of approximately 20,456,000 of which approximately 2,117,000 was incurred during 2002. As of June 30, 2002 there was a stockholders' deficit of approximately 5,471,000.

The Company is in need of substantial additional capital. The Company is currently considering various alternatives related to raising additional capital including continued funding from an investment group and new funding from other sources. No assurance can be given that any form of additional financing will be available on terms acceptable to the Company, that adequate financing will be obtained to meet its needs, or that such financing would not be dilutive to existing shareholders.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which contemplate continuation of the Company as a going concern. The matters described in the preceding paragraphs raise substantial doubt about the Company's ability to continue as a going concern. Recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon the Company advancing beyond the development stage, which in turn is dependent upon the Company's ability to obtain additional financing, meet its financing requirements on a continuing basis, and succeed in its future operations. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue in existence.

3. Loss Per Common Share

Basic loss per share is calculated by dividing the net loss attributable to common stockholders by the number of weighted average common shares outstanding. Diluted earnings per share are calculated by dividing the net loss attributable to common stockholders by the weighted average common shares, and when dilutive, by including options, warrants and convertible securities outstanding using the treasury stock method. There was no difference between basic and diluted loss per share for all periods presented, because the impact of including options, warrants and convertible securities would be antidilutive.

BIO-key International, Inc.
(a Corporation in the Development Stage)
NOTES TO FINANCIAL STATEMENTS
December 31, 2001, and June 30, 2002 (Unaudited)

4. Prepaid Expenses

	December 31, 2001	June 30, 2002

Consulting fees	$ 188,275	$ 99,675
Insurance	18,359	41,407
Rent and other	--	149
	$ 206,634	$ 141,231

5. Other Assets

	December 31, 2001	June 30, 2002
Deferred financing costs	$ --	$ 67,000
Patents pending	26,706	33,105
Security deposits	15,000	15,000
	$ 41,706	$ 115,105

Deferred financing costs

In March 2002, the company engaged an investment banking firm to advise the Company regarding rasing additional capital through the potential future issuance of the Company's equity, debt or convertible securities. The firm will be paid a nonrefundable retainer fee of $50,000 and has been granted a four year warrant to purchase 25,000 shares of the Company's common stock at an exercise price of $1.00 per share. The estimated value of the warrant is $17,000.

6. Accrued Liabilities

	December 31, 2001	June 30, 2002
Interest	$ 42,509	$ 262,538
Compensation	36,699	39,897
Other	11,367	2,477
	$ 90,575	$ 304,912

7. Long-term Obligations

As part of the Company's November 2001 recapitalization transaction with an investor group (the Investor), the Investor agreed to provide additional financing (the Funding Agreement) in incremental monthly installments during the six-month period commencing March 1, 2002, subject to certain conditions. In the six months ended June 30, 2002 the Company has received $795,000 and issued notes payable to the Investor. The terms of the notes require the principal to be repaid on September 30,2003,interest to be accrued at 10%, payable semi-annually on April 30 and September 30 commencing September 30, 2002, and provide for conversion of principal and accrued interest into shares of the Company's common stock at a conversion price of $0.75 per share.

BIO-key International, Inc.
(a Corporation in the Development Stage)
NOTES TO FINANCIAL STATEMENTS
December 31, 2001, and June 30, 2001 (Unaudited)

8. Stockholders Equity

Conversion of Debt into Common Stock

All of the Company's notes payable to the Investor are convertible into shares of the Company's common stock. During the six-month period ended June 30, 2002, the Investor elected to convert $316,000 principal amount and $6,392 of accrued interest due under the Company's 5% Convertible Debenture into 803,198 shares of common stock.

Series B Convertible Preferred Stock Dividends

The Company's Series B preferred stock accrues dividends at 9% payable semi-annually on June 15 and December 15. As of June 30, 2002 cumulative dividends in arrears were approximately $106,000.

Options and Warrants

The following summarizes option and warrant activity since December 31, 2001:

	Number of Shares				
	1996 Plan	1999 Plan	Non-Plan	Warrants	Total
Balance, December 31, 2001	390,380	1,456,669	1,981,000	5,811,898	9,639,947
Granted	--	75,000	--	218,000	293,000
Cancelled	--	75,000	168,000	--	243,000
Balance, June 30, 2002	390,380	1,456,669	1,813,000	6,029,898	9,689,947
Available for future grants, June 30, 2002	266,620	543,331	--	--	809,951

9. Events Occurring Subsequent to June 30, 2002

Pursuant to the Funding Agreement with the Investor discussed in Note 7 during July and August, 2002 the Company has issued a series of notes payable in the aggregate principal amount of $195,000.

In July 2002, the Company granted a warrant to an investor relations firm to purchase 200,000 shares of the Company's common stock at an exercise price of $0.45 per share. The warrant is immediately exercisable and expires in three years.

Supplementary Disclosures of Cash Flow Information

	Six months Ended June 30, 2001	Six months Ended June 30, 2002	January 7, 1993 (date of inception through June 30, 2002
Cash paid for:			
Interest	$ --	$ --	$ 28,544
Noncash Financing Activities:			
Conversion of short-term notes, accrued interest and penalties into long-term notes and debentures	--	--	4,567,546
Conversion of convertible debentures, bridge notes, and accrued interest into common stock	--	322,392	2,907,360
Accretion of preferred stock beneficial conversion feature	--	--	877,000
Issuance of Series B preferred stock in exchange for Series A preferred stock and cumulative dividends in arrears, thereon	--	--	281,049
Issuance of common stock in exchange for Series A preferred stock and cumulative dividends in arrears, thereon	--	--	24,922
Issuance of warrants or stock effected through reduction of debt	--	32,000	382,000
Unearned compensation reversal related to employee termination	--	--	227,111
Common stock repurchases offset by a reduction in amounts billed to Jasper for research and development	--	--	170,174
Offset deferred offering costs against proceeds of initial public offering, and other	--	--	159,021

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

PRIVATE SECURITIES LITIGATION REFORM ACT

The information contained in this Report on Form 10-QSB and in other public statements by the Company and Company officers include or may contain certain forward-looking statements. The words "may", "intend", "will", "expect", "anticipate", "believe", "estimate", "project", and similar expressions used in this Report are intended to identify forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 and Sections 21E of the U.S. Securities Exchange of 1934. You should not place undue reliance on these forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly release the result of any revision of these forward-looking statements to reflect events or circumstances after the date they are made or to reflect the occurrence of unanticipated events. You should also know that such statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions. These factors include, but are not limited to, the Company's ability to sucessfully develop and market its technology and to obtain additional financing as well as those risks described in detail in the Company's Annual Report on Form 10-KSB under the caption "Risk Factors". Should any of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may differ materially from those included within the forward-looking statement.

OVERVIEW

Historically, BIO-key International, Inc.'s (the "Company") goal was to develop automated fingerprint identification products which were portable, easily integrated with existing applications and affordable for mass commercialization and distribution through Original Equipment Manufacturers ("OEM"s), distributors and to a lesser degree, system integrators in the computer network, general access control and other markets. This included the development of proprietary readers. During 1998 and 1999, the evolution of the Company's technology allowed it to shift from providing biometric hardware to developing and licensing biometric identification IT security and identity theft solution software.

These solutions are built around the advanced capabilities of the Company's proprietary patent pending VST((Vector Segment Technology() algorithm. The Company has pioneered the development of automated, finger identification technology that can be used without the aide of non-automated methods of identification such as a personal identification (PIN), password, token, smart card, ID card, credit card, passport, drivers license or other form of possession based or knowledge based identification. This advanced BIO-key(identification technology improves both the accuracy and speed of finger-based biometrics and is the only finger identification algorithm that has been certified by the International Computer Security Association (ICSA).

Over the past two years, recognizing the growth in electronic commerce, private networks and related security concerns, the Company has actively positioned its technology for the licensing of a Web based biometric authentication software solution to e-commerce and other companies conducting business over the Internet. This integrated solution involves the licensing of client and server based software to provide for reliable and cost effective user authentication in connection with the processing of e-commerce transactions or securing access to private networks.

The Company has completed the development of its core technology, has commenced the marketing of its technology and has begun to generate revenue from licensing arrangements during 2002.

Although the Company has developed significant identification technology, it has not gained any meaningful commercial acceptance and the Company has only generated minimal revenue since inception. The Company did not generate any revenue during 2000 or 2001. The Company's business model, particularly the Web authentication initiative, represents a novel approach to Internet and network security which as of the date of this report has not been adopted by any company conducting business over the Internet. Although recent security concerns relating to the identification of individuals has increased interest in biometrics generally, there can be no assurance that there will be a demand for such a solution or that the Company will have the financial or other resources necessary to successfully market such a software solution.

The Company believes its existing financial resources will only last through August 2002. See "Liquidity and Capital Resources" below. Due to this and other uncertainties, the Company's independent auditors have included an explanatory paragraph in their opinion for the year ended December 31, 2001 as to the substantial doubt about the Company's ability to continue as a going concern. The Company's long-term viability and growth will depend upon the successful commercialization of its technologies and its ability to obtain adequate financing, among other matters, as to which there can be no assurances.

RESULTS OF OPERATIONS

THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2002 AS COMPARED TO THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2001

Revenues

The Company generated approximately $58,000 of revenue during the three months ended June 30, 2002 consisting of $57,000 from licensing fees and $1,000 from reader sales. There was no revenue for the same period in 2001.

The Company generated approximately $58,000 of revenue during the six months ended June 30, 2002 consisting of $57,000 from licensing fees and approximately $1,000 from reader sales. There was no revenue for the same period in 2001.

Costs and Other Expenses

Cost of goods sold were approximately $1,000 during the three months ended June 30, 2002 as compared to $0 for the corresponding period in 2001. There were no sales in the corresponding period in 2001.

Cost of goods sold were approximately $1,000 during the six months ended June 30, 2002 as compared to $0 for the corresponding period in 2001. There were no sales in the corresponding period in 2001.

Selling, general and administrative expenses increased approximately $113,000 to approximately $493,000 during the three months ended June 30, 2002 as compared to approximately $380,000 for the corresponding period in 2001. Of the increase, approximately $327,000 was due to a increase in marketing costs as the Company focused on marketing its Web-based biometric authentication software solution and approximately $4,000 was due to an increase in professional services costs subsequent to the recapitalization transaction in November 2001 and the filing of a registration statement with the Securities and Exchange Commission in 2002. These were offset by an approximate $179,000 decrease of a non-cash accrual of penalties incurred for failing to file a registration statement for the Company's Series A convertible preferred stock, and approximately $39,000 was due to a reduction in salaries and wages for administrative personnel.

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Selling, general and administrative expenses increased approximately $203,000 to approximately $998,000 during the six months ended June 30, 2002 as compared to approximately $795,000 for the corresponding period in 2001. Of the increase, approximately $574,000 was due to a increase in marketing costs as the Company focused on marketing its Web-based biometric authentication software solution and approximately $72,000 was due to an increase in professional services costs subsequent to the recapitalization transaction in November 2001 and the filing of a registration statement with the Securities and Exchange Commission in 2002. These were offset by an approximate $358,000 decrease of a non-cash accrual of penalties incurred for failing to file a registration statement for the Company's Series A convertible preferred stock, a decrease of approximately $28,000 due to a reduction in general and administrative operating costs, and approximately $57,000 was due to a reduction in salaries and wages for administrative personnel.

Research, development, and engineering expenses increased approximately $104,000 to approximately $279,000 during the three months ended June 30, 2002 as compared to approximately $175,000 for the corresponding period in 2001. Of the increase, approximately $75,000 was due to a increase in wages for development personnel and approximately $43,000 was due to an increase in general development and engineering costs. These were offset by an approximate $14,000 decrease in software sub-contracting costs.

Research, development, and engineering expenses increased approximately $111,000 to approximately $566,000 during the six months ended June 30, 2002 as compared to approximately $455,000 for the corresponding period in 2001. Of the increase, approximately $156,000 was due to a increase in wages for development personnel and approximately $57,000 was due to an increase in general development and engineering costs. These were offset by an approximate $102,000 decrease in software sub-contracting costs.

Other income and expense increased approximately $294,000 to approximately $351,000 during the three months ended June 30, 2002 as compared to approximately $57,000 for the corresponding period in 2001. The increase was primarily due to an increase in interest costs associated with the November 2001 recapitalization transaction and new long-term borrowings.

Other income and expense increased approximately $500,000 to approximately $611,000 during the six months ended June 30, 2002 as compared to approximately $111,000 for the corresponding period in 2001. The increase was primarily due to an increase in interest costs associated with the November 2001 recapitalization transaction and new long-term borrowings.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities during the six months ended June 30, 2002 was approximately $1,209,000 compared to approximately $831,000 during the six months ended June 30, 2001. The primary use of cash for both years was to fund the net loss. Net cash used in investing activities for the six months ended June 30, 2002 was approximately $6,000 compared to net cash used in investing activities of approximately $1,000 for the same period in 2001. Net cash provided by financing activities during the six months ended June 30, 2002 was $745,000 compared to $850,000 in the same period in 2001 and consisted primarily of long-term borrowing activities of $795,000 partially offset by costs related to capital raising efforts.

Working capital decreased approximately $784,000 during the six months ended June 30, 2002 to a deficit of approximately $391,000 as compared to a surplus of approximately $393,000 as of December 31, 2001. This decrease is primarily due to operating losses, offset by long-term borrowings.

Pursuant to the November 2001 recapitalization transaction with an investment fund (the Fund), the Company obtained $1,065,000 of additional financing through the issuance in 2001 of a secured convertible promissory note (the "Secured Note"). All existing promissory notes payable to the Fund together with all accrued and unpaid interest due thereon ($3,028,000) were cancelled and converted into the Secured Note. The Secured Note is due September 30, 2003, is secured by substantially all of the Company's assets, including its intellectual property, accrues interest at the rate of 10% per annum payable quarterly in arrears commencing September 30, 2002, may be prepaid without penalty and is convertible into shares of common stock at a conversion price of $0.75 per share. The security interest terminates upon the Company obtaining $5,000,000 of additional equity financing. In this transaction, the Company received net cash proceeds of $1,024,000 after giving effect to offering costs of $41,000.

The Fund has agreed to provide up to $1,080,000 of additional financing in incremental monthly installments during the six-month period commencing March 1, 2002. Any such funding will be provided pursuant to a secured promissory note on the terms described above. The Fund's obligation to provide this financing is conditioned upon:

- The Company being in compliance with all material obligations under the November 26, 2001 funding agreement between the parties, the Secured Note and debentures issued to the Fund pursuant thereto, and the other agreements between the parties.

- The continued truth and accuracy of the representations and warranties of the Company set forth in the funding agreement.

- The average closing bid price of the Company's common stock during the calendar month preceding the advance exceeding $1.00 per share.

Provided the forgoing conditions are satisfied, funds are advanced upon ten (10) business days written notice from the Company which notice shall be delivered not earlier than the first business day of the month of the requested advance. Between January 1, 2002 and the date of this report, the Company has obtained advances in the aggregate principal amount of $990,000. After the final advance has been made, the Company has agreed to file a registration statement covering the public resale of the shares of common stock issuable upon conversion of the secured promissory notes issued against each advance.

Since January 7, 1993 (date of inception), the Company's capital needs have been principally met through proceeds from the sale of equity and debt securities.

The Company does not currently maintain a line of credit or term loan with any commercial bank or other financial institution.

Primarily all of the Company's interest expense is related to obligations due the Fund.

As of the date of this report, the Company has minimal cash resources. Although the Fund has, in the past, provided financing to the Company notwithstanding that all of the conditions were not satisfied, there can be no assurance that it will continue to do so. During the past year, the Company has reduced its administrative expenses such that it currently requires approximately $180,000 per month to conduct operations. Based on available cash resources and the existing funding obligations, the Company believes it can maintain operations at current levels through August 2002. The

Company needs approximately $2,160,000 to continue to operate at current levels for the next twelve (12) months. Ideally, the Company needs approximately $5,000,000 to $7,000,000 to execute its business plan and support the growth of operations through 2003 and to continue product enhancements. The additional financing is required to conduct the sales and marketing effort necessary to engage in significant direct selling and marketing activities.

During the three month period ended June 30, 2002, the Company entered into license agreements and generated $58,000 of revenue. Management believes the Company will continue to generate revenue from existing and new relationships during the remainder of the year. Anticipated revenues are expected to defray operating expenses and reduce the amount of required additional financing but are not expected to be sufficient for the Company to expand operations.

In addition to generating revenue, the Company is seeking to obtain additional financing through the issuance of additional debt or equity securities of the Company on a negotiated private placement basis to institutional and accredited investors. In March 2002, the Company retained a financial advisory firm to assist the Company in raising the necessary additional capital. The financial advisory firm has introduced the Company to potential funding sources, however, as of the date of this report, the Company has not reached any definitive agreement with any potential investor regarding the specific terms of an investment in the Company. No assurance can be given that any form of additional financing will be available on terms acceptable to the Company, that adequate financing will be obtained to meet its needs, or that such financing would not be dilutive to existing stockholders. If available financing is insufficient or unavailable or the Company fails to generate any meaningful revenue, it may be required to further reduce operating expenses, suspend operations, seek a merger or acquisition candidate or ultimately liquidate its assets.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not a party to any material pending legal proceeding nor is it aware of any proceeding contemplated by any governmental authority involving the Company.

ITEM 2. CHANGES IN SECURITIES

1. On July 16, 2002 the Company issued a three-year warrant to purchase 200,000 shares of the common stock to CEOCAST, Inc., an investor relations firm, at an exercise price of $.45 per share, the closing market price of the Company's common stock on the date of grant. The warrant is immediately exercisable and was issued in a private placement transaction exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2)thereunder without payment of underwriting discounts or commissions to any person.

2. On or about June 30, 2002, the Company issued an aggregate of 646,458 shares of common stock upon conversion of $216,000 principal amount and $6,392 of accrued interest due under the Company's 5% Convertible Debenture. The shares were issued in a private placement transaction exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) thereunder without payment of underwriting discounts of commissions to any person.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER EVENTS

None

ITEM 6. EXHIBITS

(a) Exhibits

99.1 Certificate of CEO of Registrant Pursuant to 18 USC Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certificate of CFO of Registrant Pursuant to 18 USC Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

None.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, as amended, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: August 13, 2002 BIO-Key International, Inc.

/s/ Jeffry R. Brown

Jeffry R. Brown, Chief Executive Officer

/s/ Gary Wendt

Gary Wendt, Chief Financial Officer

EXHIBIT INDEX

EXHIBIT NO.	REFERENCE
99.1	Certificate of CEO of Registrant Pursuant to 18 USC Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certificate of CFO of Registrant Pursuant to 18 USC Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.